

**CITY OF EDDYVILLE**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2011**

**Peak & Co., LLP**  
**Certified Public Accountants**  
**1370 NW 114<sup>th</sup> St., Suite 205**  
**Clive, IA 50325**

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City of Eddyville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Johnston	Mayor	January 1, 2012
Doug Greenlee	Council Member	January 1, 2014
John Simmers	Council Member	January 1, 2014
Jim Durst	Council Member	January 1, 2012
Wendell Terell	Council Member	January 1, 2014
Dwight Lobberecht	Council Member	January 1, 2012
Mickey A. Solano	Clerk/Treasurer	January 1, 2012
Greg A. Life	Attorney	January 1, 2012

Library Board

Kim Brown	Library Trustee	June 30, 2011
Ruby Johnson	Library Trustee	June 30, 2011
Larry Leatherman	Library Trustee	June 30, 2011
Paulette Groet	Library Trustee	June 30, 2012
Marla Wood	Library Trustee	June 30, 2014
Jim Sutton	Library Trustee	June 30, 2014
David Glass	Library Trustee	June 30, 2014

**City of Eddyville**

PEAK & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1370 NW 114<sup>TH</sup> ST., SUITE 205  
CLIVE, IA 50325  

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(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eddyville, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Eddyville's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

The financial statements referred to above include only the primary government of the City of Eddyville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Eddyville as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph above, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Eddyville as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2012 on our consideration of the City of Eddyville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 19 through 20 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the primary government financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eddyville's primary government financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Co., LLP  
Certified Public Accountants

January 31, 2012

## **Basic Financial Statements**

## City of Eddyville

Exhibit A

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

Functions / Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Governmental activities:</b>							
Public safety	\$ 367,248	183	719,625	44,323	396,883	-	396,883
Public works	256,168	45,341	101,422	47,142	(62,263)	-	(62,263)
Culture and recreation	84,522	14,214	19,974	3,080	(47,254)	-	(47,254)
Community and economic development	1,208	-	-	-	(1,208)	-	(1,208)
General government	81,501	2,219	-	-	(79,282)	-	(79,282)
Debt service	92,317	-	-	-	(92,317)	-	(92,317)
Capital projects	239,210	-	-	247,006	7,796	-	7,796
<b>Total governmental activities</b>	<b>1,122,174</b>	<b>61,957</b>	<b>841,021</b>	<b>341,551</b>	<b>122,355</b>	<b>-</b>	<b>122,355</b>
<b>Business type activities:</b>							
Sewer	127,682	125,415	-	-	-	(2,267)	(2,267)
Solid waste	57,623	52,670	-	-	-	(4,953)	(4,953)
<b>Total business type activities</b>	<b>185,305</b>	<b>178,085</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,220)</b>	<b>(7,220)</b>
<b>Total</b>	<b>\$ 1,307,479</b>	<b>240,042</b>	<b>841,021</b>	<b>341,551</b>	<b>122,355</b>	<b>(7,220)</b>	<b>115,135</b>
<b>General Receipts and Transfers:</b>							
Property tax and other city tax levied for:							
General purposes					200,866	-	200,866
Debt service					88,273	-	88,273
Local option sales tax					107,508	-	107,508
Grants and contributions not restricted to specific purposes					9,447	-	9,447
Unrestricted interest on investments					1,721	2,939	4,660
Street improvement and refunding note proceeds					510,000	-	510,000
Early payment on street improvement note					(315,800)	-	(315,800)
Miscellaneous					3,962	4,200	8,162
Sale of assets					1,150	-	1,150
Transfers					41,406	(41,406)	-
<b>Total general receipts and transfers</b>					<b>648,533</b>	<b>(34,267)</b>	<b>614,266</b>
<b>Change in cash basis net assets</b>					<b>770,888</b>	<b>(41,487)</b>	<b>729,401</b>
<b>Cash basis net assets beginning of year</b>					<b>881,910</b>	<b>396,501</b>	<b>1,278,411</b>
<b>Cash basis net assets end of year</b>					<b>\$ 1,652,798</b>	<b>355,014</b>	<b>2,007,812</b>
<b>Cash Basis Net Assets</b>							
<b>Restricted:</b>							
Nonexpendable:							
Cemetery perpetual care					\$ 47,436	-	47,436
Expendable:							
Streets					131,798	-	131,798
Debt service					7,227	-	7,227
Flood projects					426,695	-	426,695
Capital improvement					361,135	-	361,135
Other purposes					274,283	-	274,283
<b>Unrestricted</b>					<b>404,224</b>	<b>355,014</b>	<b>759,238</b>
<b>Total cash basis net assets</b>					<b>\$ 1,652,798</b>	<b>355,014</b>	<b>2,007,812</b>

See notes to financial statements.



**Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds**

As of and for the year ended June 30, 2011

	Special Revenue			Capital Projects		
	General	Road Use Tax	Local Option Sales Tax	Library	Nonmajor	Total
<b>Receipts:</b>						
Property tax	\$ 148,845	-	-	-	133,531	282,376
Other city tax	9,447	-	107,508	-	6,763	123,718
Licenses and permits	2,219	-	-	-	-	2,219
Use of money and property	2,321	-	-	3,080	-	5,401
Intergovernmental	1,021,086	159,013	-	-	-	1,180,099
Charges for service	5,750	-	-	-	-	5,750
Miscellaneous	55,056	-	-	-	1,687	56,743
Total receipts	1,244,724	159,013	107,508	3,080	141,981	1,656,306
<b>Disbursements:</b>						
Operating:						
Public safety	351,819	-	45	-	15,384	367,248
Public works	90,300	132,385	9,441	-	24,042	256,168
Culture and recreation	84,522	-	-	-	-	84,522
Community and economic development	1,208	-	-	-	-	1,208
General government	67,859	-	-	-	13,642	81,501
Debt service	-	-	-	-	92,317	92,317
Capital projects	239,210	-	-	-	-	239,210
Total disbursements	834,918	132,385	9,486	-	145,385	1,122,174
Excess of receipts over disbursements	409,806	26,628	98,022	3,080	(3,404)	534,132
<b>Other financing sources (uses):</b>						
Sale of capital assets	1,150	-	-	-	-	1,150
Street improvement and refunding note proceeds	-	191,383	-	-	318,617	510,000
Early payment on street improvement note	-	-	-	-	(315,800)	(315,800)
Operating transfers in	65,330	-	-	-	-	65,330
Operating transfers out	-	-	(7,574)	(16,350)	-	(23,924)
Total other financing sources (uses)	66,480	191,383	(7,574)	(16,350)	2,817	236,756
Net change in cash balances	476,286	218,011	90,448	(13,270)	(587)	770,888
Cash balances beginning of year	354,633	105,170	176,939	183,022	62,146	881,910
Cash balances end of year	\$ 830,919	323,181	267,387	169,752	61,559	1,652,798
<b>Cash Basis Fund Balances</b>						
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	47,436	47,436
Restricted for:						
Debt service	-	-	-	-	7,227	7,227
Streets	-	131,798	-	-	-	131,798
Flood projects	426,695	-	-	-	-	426,695
Capital improvements	-	191,383	-	169,752	-	361,135
Other purposes	-	-	267,387	-	6,896	274,283
Assigned for library	6,121	-	-	-	-	6,121
Unassigned	398,103	-	-	-	-	398,103
Total cash basis fund balances	\$ 830,919	323,181	267,387	169,752	61,559	1,652,798

See notes to financial statements.

## City of Eddyville

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise Funds		
	Other		
	Non-Major		
	Fund		
	Sewer	Solid Waste	Total
Operating receipts:			
Charges for service	\$ 125,415	52,670	178,085
Total operating receipts	125,415	52,670	178,085
Operating disbursements:			
Business type activities	57,962	57,623	115,585
Total operating disbursements	57,962	57,623	115,585
Excess (deficiency) of operating receipts over (under) operating disbursements	67,453	(4,953)	62,500
Non-operating receipts (disbursements):			
Interest on investments	2,939	-	2,939
Miscellaneous	4,200	-	4,200
Capital projects	(69,720)	-	(69,720)
Net non-operating receipts (disbursements)	(62,581)	-	(62,581)
Excess (deficiency) of receipts over (under) disbursements	4,872	(4,953)	(81)
Other financing sources (uses):			
Operating transfers out	(41,406)		(41,406)
Total other financing sources (uses)	(41,406)	-	(41,406)
Net change in cash balances	(36,534)	(4,953)	(41,487)
Cash balances beginning of year	385,422	11,079	396,501
Cash balances end of year	\$ 348,888	6,126	355,014
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 348,888	6,126	355,014
Total cash basis fund balances	\$ 348,888	6,126	355,014

See notes to financial statements.

City of Eddyville

Notes to Financial Statements

June 30, 2011

**(1) Summary of Significant Accounting Policies**

The City of Eddyville is a political subdivision of the State of Iowa located in Monroe, Mahaska and Wapello Counties. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer utilities and solid waste services for its citizens.

**A. Reporting Entity**

Except as discussed below, for financial reporting purposes, the City of Eddyville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Eddyville (the primary government) and exclude the City's component unit. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

**Excluded Component Unit**

The Eddyville Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

**Jointly Governed Organizations**

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the boards of the Wapello County Assessor's Conference Board, Area 15 Regional Planning Commission and the Eddyville Development Corporation.

**B. Basis of Presentation**

**Government-wide Financial Statement** - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

**Fund Financial Statements** – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa, grants from the State of Iowa, and note proceeds, with these funds to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for the related costs allowed to be paid for from these funds.

The Capital Projects, Library Fund accounts for restricted receipts and donations received by this fund to be used for costs associated with Library capital projects.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Eddyville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### **D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

#### **E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 and at other times during the year, were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City Library has invested in annuities through RiverSource Life Insurance Company. These annuities are fixed income annuities, payable over 15 years, guaranteed by RiverSource Life Insurance Company. However, this guarantee is only as good as the financial viability of RiverSource Life Insurance Company. There are no fair market values of these annuities as of June 30, 2011, since these annuities are unable to be cashed out as of June 30, 2011. It does not appear that investments in annuities are allowable according to Chapters 12B and 12C of the Code of Iowa. However, the donor required that annuities were to be purchased with the funds received by the City from the donor.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**(3) Notes Payable**

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes	
	Principal	Interest
2012	\$ 60,000	18,309
2013	60,000	15,819
2014	65,000	13,329
2015	65,000	10,631
2016	65,000	7,934
2017	65,000	5,236
2018	61,177	2,539
	<u>\$ 441,177</u>	<u>73,797</u>

In August 2010, the City issued a \$510,000 street improvement and refunding note with an interest rate of 4.15%. The City issued the note to refund \$315,800 of an outstanding October, 2007 street improvement note with an interest rate of 4.35%. The District used the net proceeds to call and pay the balance of the 2007 note, with the balance of the proceeds to be used to pay the costs of major street projects.

The refunding reduced debt service payments over the next five years by \$1,893. However, the economic gain (difference between the present values of the debt service payments on the old and new debt) was not computed and is unknown.

**(4) Operating Lease Agreement**

The City Library is leasing a copy machine for \$58 per month. Future required payments are:

Year Ended June 30,	Amount
2012	\$ 696
2013	696
2014	696
	<u>\$ 2,088</u>

Total rent expense during the fiscal year on this agreement was \$696.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011 was \$11,372, equal to the required contributions for the year.

**(6) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 4 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and plan members are \$547.17 for single coverage and \$1,294.69 for family coverage for the City employees and \$396.65 for single coverage for the Library employee. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$42,398 and plan members eligible for benefits contributed \$0 to the plan.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, overtime and personal leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, overtime and personal leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, was \$11,230.

This liability has been computed based on rates of pay in effect at June 30, 2011.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 7,574
	Capital Projects:	
	Library	16,350
	Enterprise:	
	Sewer	<u>41,406</u>
	Total	<u>\$ 65,330</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Related Party Transactions**

The City had business transactions between the City and City officials, totaling \$93,300 during the year ended June 30, 2011.

**(10) Risk Management**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$7,594.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(11) Contingency**

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.



**(12) Commitments**

The City has received notification that they have been awarded grants from the State of Iowa Community Development Block Grant program for flood related mitigation work. As of June 30, 2011, the unspent portion of the grant totaled approximately \$3.8 million.

As of June 30, 2011, the City has approximately \$3 million in uncompleted construction projects outstanding. These projects will be paid for with existing cash reserves and reimbursement from the Community Development Block Grant program. It is anticipated these uncompleted construction projects will be completed in fiscal year 2012.

The City has issued a \$850,000 grant anticipation project note. This note was issued in fiscal year 2011, but the proceeds will not be used until fiscal year 2012.

The City has a law enforcement contract with Mahaska and Wapello Counties, with a total cost of approximately \$55,000 per year. These contracts are renewed on a year to year basis, with a 30 day cancellation notice.

**(13) Subsequent Events**

The City incurred approximately \$250,000 in costs related to seal coating and asphalt overlay of streets in fiscal year 2012. These costs were paid for from existing cash reserves.

The City has evaluated subsequent events through January 31, 2012, which is the date that the financial statements were available to be issued.

**(14) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of this reclassification has no effect on the beginning balances in any fund.

### **Required Supplementary Information**

City of Eddyville

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Final to Total Variance
Receipts:					
Property tax	\$ 282,376	-	282,376	286,307	(3,931)
Other city tax	123,718	-	123,718	109,541	14,177
Licenses and permits	2,219	-	2,219	1,625	594
Use of money and property	5,401	2,939	8,340	26,500	(18,160)
Intergovernmental	1,180,099	-	1,180,099	977,450	202,649
Charges for service	5,750	178,085	183,835	4,289,870	(4,106,035)
Miscellaneous	56,743	4,200	60,943	82,190	(21,247)
Total receipts	1,656,306	185,224	1,841,530	5,773,483	(3,931,953)
Disbursements:					
Public safety	367,248	-	367,248	69,215	(298,033)
Public works	256,168	-	256,168	302,028	45,860
Culture and recreation	84,522	-	84,522	82,650	(1,872)
Community and economic development	1,208	-	1,208	7,500	6,292
General government	81,501	-	81,501	90,820	9,319
Debt service	92,317	-	92,317	89,500	(2,817)
Capital projects	239,210	-	239,210	850,000	610,790
Business type activities	-	185,305	185,305	4,281,770	4,096,465
Total disbursements	1,122,174	185,305	1,307,479	5,773,483	4,466,004
Excess (deficiency) of receipts over (under) disbursements	534,132	(81)	534,051	-	534,051
Other financing sources (uses), net	236,756	(41,406)	195,350	-	195,350
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	770,888	(41,487)	729,401	-	729,401
Balances beginning of year	881,910	396,501	1,278,411	1,655,160	(376,749)
Balances end of year	\$ 1,652,798	355,014	2,007,812	1,655,160	352,652

See accompanying independent auditor's report.

City of Eddyville

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were not budget amendments.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, culture and recreation and debt service functions.

### Other Supplementary Information

## City of Eddyville

Schedule 1

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		Permanent Cemetery Perpetual Care	Total
	Employee Benefits	Debt Service		
Receipts:				
Property tax	\$ 49,519	84,012	-	133,531
Other city tax	2,502	4,261	-	6,763
Miscellaneous	-	-	1,687	1,687
Total receipts	52,021	88,273	1,687	141,981
Disbursements:				
Operating:				
Public safety	15,384	-	-	15,384
Public works	24,042	-	-	24,042
General government	13,642	-	-	13,642
Debt service	-	92,317	-	92,317
Total disbursements	53,068	92,317	-	145,385
Excess (deficiency) of receipts over (under) disbursements	(1,047)	(4,044)	1,687	(3,404)
Other financing sources (uses):				
Street improvement and refunding note proceeds	-	318,617	-	318,617
Early payment on street improvement note	-	(315,800)	-	(315,800)
Other financing sources (uses)	-	2,817	-	2,817
Net change in cash balances	(1,047)	(1,227)	1,687	(587)
Cash balances beginning of year	7,943	8,454	45,749	62,146
Cash balances end of year	\$ 6,896	7,227	47,436	61,559
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	47,436	47,436
Restricted for debt service	-	7,227	-	7,227
Restricted for other purposes	6,896	-	-	6,896
Total cash basis fund balances	\$ 6,896	7,227	47,436	61,559

See accompanying independent auditor's report.

City of Eddyville

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
General Obligation Notes:									
Street Improvement Note	October 15, 2007	4.35%	\$ 500,000	315,800	-	315,800	-	2,817	-
Street Improvement and Refunding Note	August 16, 2010	4.15%	510,000	-	510,000	68,823	441,177	16,757	-
Total				\$ 315,800	510,000	384,623	441,177	19,574	-
Revenue Note:									
Grant Anticipation Loan Agreement Project Note	June 6, 2011	4.00%	\$ 850,000	-	-	-	-	-	-

See accompanying independent auditor's report.

## City of Eddyville

## Schedule 3

## Bond and Note Maturities

June 30, 2011

Year Ending June 30,	General Obligation Notes	
	Street Improvement and	
	Refunding Note	
	Issued August 16, 2010	
	Interest	
	Rates	Amount
2012	4.15%	\$ 60,000
2013	4.15%	60,000
2014	4.15%	65,000
2015	4.15%	65,000
2016	4.15%	65,000
2017	4.15%	65,000
2018	4.15%	61,177
		<u>\$ 441,177</u>

See accompanying independent auditor's report.



## City of Eddyville

## Schedule 4

Schedule of Receipts by Source and Disbursements by Function -  
All Governmental Funds

For the Last Year

	<u>2011</u>
Receipts:	
Property tax	\$ 282,376
Other city tax	123,718
Licenses and permits	2,219
Use of money and property	5,401
Intergovernmental	1,180,099
Charges for service	5,750
Miscellaneous	<u>56,743</u>
Total	<u>\$ 1,656,306</u>
Disbursements:	
Operating:	
Public safety	\$ 367,248
Public works	256,168
Culture and recreation	84,522
Community and economic development	1,208
General government	81,501
Debt service	92,317
Capital projects	<u>239,210</u>
Total	<u>\$ 1,122,174</u>

See accompanying independent auditor's report.

## City of Eddyville

Schedule 5

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii			
(\$15,001 provided to subrecipients)	14.228	08-DRHB-211	\$ 44,542
		08-DRI-285	245,159
			<u>289,701</u>
Federal Highway Administration:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-2240(600)-70-90	<u>20,547</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and			
Emergency Management Division:			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)	97.036	FEMA-1763-DRIA	153,596
		FEMA-1930-DRIA	111,217
			<u>264,813</u>
Total			<u>\$ 575,061</u>

**Basis of Presentation** - The Schedule of Expenditure of Federal Awards includes the federal grant activity of the City of Eddyville and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

PEAK & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1370 NW 114<sup>TH</sup> ST., SUITE 205  
CLIVE, IA 50325  
  
(515) 277-3077

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eddyville, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 31, 2012. Our report on the primary government financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Eddyville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Eddyville's internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Eddyville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Eddyville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-11, II-D-11 and II-E-11 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Eddyville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Eddyville's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Eddyville's responses and, accordingly, we do not express an opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Eddyville and other parties to whom the City of Eddyville may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Eddyville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Co., LLP  
Certified Public Accountants

January 31, 2012

PEAK & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1370 NW 114<sup>TH</sup> ST., SUITE 205  
CLIVE, IA 50325

(515) 277-3077

Independent Auditor's Report on Compliance with Requirements That Could  
Have a Direct and Material Effect on Each Major Program and on Internal  
Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Eddyville, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Eddyville's major federal program for the year ended June 30, 2011. The City of Eddyville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Eddyville's management. Our responsibility is to express an opinion on the City of Eddyville's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Eddyville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Eddyville's compliance with those requirements.

In our opinion, the City of Eddyville complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Eddyville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Eddyville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Eddyville's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program which is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in part III of the accompanying Schedule of Findings and Questioned Costs as items III-B-11, III-C-11, III-D-11, III-E-11 and III-F-11 to be significant deficiencies.

City of Eddyville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Eddyville's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Eddyville and other parties to whom the City of Eddyville may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Peak & Co., LLP  
Certified Public Accountants

January 31, 2012

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

**Part I: Summary of the Independent Auditor's Results:**

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness and five significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Eddyville did not qualify as a low-risk auditee.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits, the posting of the cash receipts to the accounting records and the bank reconciliations are not properly segregated among office and administrative personnel. In addition, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We will review this and take action as necessary.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-11 Library – There is no immediate record of receipts. To provide increased accountability over receipts, an immediate record of receipt of monies should be maintained.

In addition, an accounting ledger is not maintained for the Capital Projects, Library Fund.

Recommendation - An initial record of receipt should be documented for all monies collected by the Library. In addition, an accounting ledger needs to be maintained for the Capital Projects, Library Fund.

Response - We will attempt to implement these recommendations.

Conclusion - Response accepted.

II-C-11 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in all small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response - This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirements.

Conclusion - Response accepted.



City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

II-D-11 Disbursement Classification - During the audit, we noted that some disbursements were posted to the incorrect account code on the City's accounting records.

Recommendation - The City should implement procedures to ensure disbursements are posted to the correct account code on the City's accounting records.

Response - We will implement this recommendation.

Conclusion - Response accepted.

II-E-11 Advance – The City has received approximately \$400,000 monies in advance from the Federal Emergency Management Agency (FEMA). Federal cash management regulations require that bank interest earned on these funds be paid back to the federal agency, in this case it would be FEMA. The City does not have procedures in place to identify the amount of interest earned on these advances. As a result, the City is unable to calculate how much bank interest should be paid back to FEMA.

Recommendation – To ensure compliance with federal requirements, for funds advanced by FEMA, the City should implement procedures to ensure appropriate bank interest is paid back to FEMA.

Response – We will review this. However, as of January, 1, 2012, almost all of this advance money from FEMA has been spent.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

**Pass-through Agency Number: 08-DRHB-211 and 08-DRI-285**

**Federal Award Year: 2008**

**U.S. Department of Housing and Urban Development**

**Passed through the Iowa Department of Economic Development**

III-A-11 Segregation of Duties – The City did not properly segregate duties involving cash, receipts, and disbursements. See item II-A-11.

III-B-11 Electronic Check Retention – The City did not retain an image of the front and back of each cancelled check, as required by the Code of Iowa. See item IV-M-11

III-C-11 Subrecipient Monitoring – For the above grant projects, the City entered into an agreement with a Regional Planning Commission (administrative entity) to administer the program. When the City enters into such agreements, the City effectively passes down all federal requirements of the program to the administrative entity, except for approving final reports and requesting funds. The agreement does not identify the administrative entity as a subrecipient when, in fact, the administrative entity becomes a subrecipient and must comply with Community Development Block Grant (CDBG) program and OMB Circular A-133 requirements upon entering into the agreement. In addition, upon entering into the agreement, the City is responsible for monitoring the administrative entity for compliance with CDBG and OMB Circular A-133 requirements.

The City has not advised the administrative entities that they become subrecipients upon execution of an agreement in which the administrative entity agrees to administer the program. In addition, the City has not performed any subrecipient monitoring procedures as required under OMB Circular A-133 in relation to the administrative entity.

Recommendation – The City should develop and implement policies and procedures to ensure the administrative entity is aware of the subrecipient relationship created when they enter into a subrecipient agreement to administer the program. In addition, the City should implement procedures to ensure that all subrecipients are monitored as required by OMB Circular A-133.

Response and Corrective Action Planned – We will contact the Iowa Department of Economic Development for guidance in relation to this.

Conclusion – Response accepted.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

III-D-11 Disbursement Approval – Two disbursements tested were not on the list of bills approved by the City Council or on the publication of claims paid, as required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation – The City should implement procedures to ensure all City disbursements are approved by the City Council prior to payment, and that all claims be published in the newspaper, as required by the Code of Iowa.

Response and Corrective Action Planned – We will implement this recommendation in the future.

Conclusion – Response accepted.

III-E-11 Cash Management – Our review noted that in some cases the invoices were not paid within 10 days of receipt of the Community Development Block Grant (CDBG) funds, as required by the CDBG agreement.

Recommendation – To ensure compliance with federal requirements, the City should implement procedures to ensure all invoices are paid at the time of receipt of the CDBG funds.

Response and Corrective Action Planned – The invoices in question were an oversight. However, this will be corrected in the future.

Conclusion – Response accepted.

**CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

**Pass-through Agency Number: 08-DRHB-211**

**Federal Award Year: 2008**

**U.S. Department of Housing and Urban Development**

**Passed through the Iowa Department of Economic Development**

III-F-11 Housing Buy-Out Grant – The City received a Community Development Block Grant (CDBG) in order to buy out a house in the flood plain in the City. Our review of the provisions related to the CDBG grant agreement noted the following concerns:

- The City was unable to locate a purchase agreement for the property purchased with CDBG funds.
- The CDBG grant agreement requires the Iowa Department of Economic Development, in advance of the purchase, approve the fair market value methodology used to establish a purchase price. However, we could not locate conclusive evidence that this procedure was performed in advance of the purchase.
- The CDBG grant agreement requires that any buildings purchased with CDBG funds be removed within 90 days of property acquisition by the City. Our review noted that the City did not meet this 90 day requirement.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Recommendation – The City implement procedures to ensure that all provisions related to the CDBG program are met. The City should also contact the Iowa Department of Economic Development to determine a satisfactory resolution to the above issues.

Response and Corrective Action Planned – We will implement these recommendations.

Conclusion – Response accepted.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

**Part IV: Other Findings Related to Required Statutory Reporting:**

- IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion - Response accepted.

- IV-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- IV-D-11 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Dwight Lobberecht, Council Member Owner of Riverside Auto	Maintenance supplies	\$4,984
Dwight Lobberecht, Council Member Spouse owns Tri-County Inc.	Construction	\$88,316

In accordance with Chapter 362.5 of the Code of Iowa, the above transactions with Riverside Auto may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions were greater than \$2,500 during the fiscal year. Except for \$937, all transactions with Tri-County, Inc. represent transactions in which the work was obtained through competitive sealed bids.

Recommendation – The City consult with their Attorney on the above to determine a proper resolution of the matter.

Response – We will review this with our Attorney.

Conclusion – Response accepted.

- IV-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

- IV-F-11 Council Minutes – Transactions were found that we believe should have been approved in the Council minutes but were not. Two invoices were not approved by the City Council or published in the newspaper, which is required by Chapter 372.13 (6) of the Code of Iowa.

Recommendation – The City should implement procedures to ensure all invoices are approved by the City Council and are published in the newspaper, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- IV-G-11 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

The City Library has invested in annuities. This type of investment does not appear to be in compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City Library's investment policy.

The maximum amount which may be kept on deposit in each depository was exceeded at June 30, 2011 and at other times during the year. As a result, the City is not in compliance with Chapter 12C.2 of the Code of Iowa.

The Debt Service Fund does not receive bank interest, even though this is required by Chapter 12C.9 of the Code of Iowa.

Recommendation – To ensure compliance with Chapter 12C of the Code of Iowa, the City Library and the City should implement procedures to ensure all investments are allowable according to the Code of Iowa, and that the maximum amount which may be kept on deposit at the bank exceeds the cash in bank amount at all times. In addition, the Debt Service Fund should receive bank interest, as required by the Code of Iowa.

Response – In regards to the Library investment, the annuity was given to us, and we can't cash this at this time. We feel it is important to honor the wishes of the donor in relation to the annuity. The City will also implement the other recommendations.

Conclusion – Response accepted.

- IV-H-11 Tax Levy - The City levies a separate property tax levy for liability/property insurance, pursuant to Chapter 384.12 of the Code of Iowa. However, it appears the City has levied too much in property taxes for liability/property insurance given the cost of liability/property insurance. This Code Section only allows the City to levy an amount necessary to fund the costs of liability/property insurance. As a result, it would appear that the City is not allowed to levy excess taxes under the liability/property insurance Code Section in order to fund the general operations of the City. In addition, proceeds of this levy were used to pay for the costs associated with the water and sewer system of the City. The water and sewer operations should pay for their share of liability/property insurance.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Recommendation – The City review these Code Sections to ensure compliance with the Code of Iowa requirements. In addition, the City needs to consult with legal counsel to determine an appropriate course of action in relation to the above issue.

Response – We will take this into account in the future.

Conclusion – Response accepted.

- IV-I-11 Library – The I9's for Library employees were not always complete. The Library does not provide an annual report to the City Council as required by the Code of Ordinances. The wage rates for Library employees are not documented in the Library Board minutes.

Recommendation – The Library implement procedures to ensure all I9's are complete, an annual report is provided to the City Council, and all wage rates approved for library employees are documented in the Board minutes.

Response – We will implement this recommendation.

Conclusion - Response accepted.

- IV-J-11 Utility Rates – Section 384.83 and 384.84 of the Code of Iowa requires that utility rates must be established by ordinance of the City Council, published in the same manner as an ordinance. We noted that the utility rates currently charged by the City are not entirely consistent with the utility rates as documented in the ordinances.

Recommendation – The City follow the above Code sections on utility rate establishment.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- IV-K-11 Cash Management – The City's system of cash management is in need of improvement. For the past year, the City has averaged a balance of \$500,000-\$1,000,000 in bank accounts which pay interest at a rate of .10%. As a result, the City could have earned a significant amount of additional bank interest per year if the City would have invested its funds in a savings account, certificate of deposits, or some other investment.

Recommendation – The City be more proactive in the management of its cash, including a periodic analysis of its investing and financing activities, and determining what is financially in the best interest of the City.

Response – We will review this.

Conclusion – Response accepted.

- IV-L-11 Code of Ordinances – The City last had its Code of Ordinances recodified in 2005. Chapter 380.8 of the Code of Iowa states, in part, "At least once every five years, a city shall compile a code of ordinances containing all of the city ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances vacating streets and alleys."

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Recommendation – The City should ensure the Code of Ordinances is recodified as required.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- IV-M-11 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. However, the City did not obtain an image of the front and/or back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response and Corrective Action Planned – We will implement this recommendation.

Conclusion – Response accepted.

- IV-N-11 Miscellaneous – The debt amounts reported on the debt report filed with the State Treasurer's Office were inaccurate.

No City Council approval of meeting pay was located. One employee does not keep a timesheet, even though this employee might be subject to overtime pay if the employee works more than forty hours in a week.

It appears the City did not receive \$12,055 from a federal grant program, even though it appears that the City would be entitled to these funds.

For the City's Community Development Block Grant program, it appears the City failed to claim reimbursement for some costs in relation to this program. This was allowed to occur because the City does not reconcile the amounts recorded on the City's accounting system with amounts recorded on the claim forms filed with the grantor.

For the Federal Emergency Management Agency (FEMA) program, it appears that the City is due additional monies for personnel costs. Even though these costs were on the claim forms filed with FEMA, FEMA did not reimburse the City for these costs. No explanation was provided as to why FEMA failed to reimburse the City for these costs. It would appear that the City is due an additional several thousand dollars in reimbursement from FEMA for personnel costs.

The City budget amounts as approved by the City Council do not agree to the budget amounts as recorded on the monthly reports given to the City Council.

Recommendation – The City implement procedures to ensure the debt amounts reported to the State Treasurer's Office are accurate, the City Council approves all meeting pay, and that all employees who could be subject to overtime keep timesheets. In addition, the City implement procedures to ensure all monies are received from federal grant programs, and that the budget amounts recorded on the reports given to the City Council agree to the budget amounts as originally approved by the City Council.



City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Response – We will file accurate debt reports in the future. In addition, the City Council will approve all meeting pay, and all employees subject to overtime will keep timesheets. In relation to the \$12,055, the engineer did not tell us about this, and by the time the auditor figured this out, it was too late to do anything about this issue. However, in relation to the Community Development Block Grant program, we have now filed a claim to recover all costs incurred in relation to these grants. For the FEMA program, our FEMA representative is checking into this issue. In addition, our monthly reports will be revised to ensure the budget amounts agree to the budget amounts originally passed by the City Council.

Conclusion – Response accepted. However, the City needs to implement procedures to ensure all monies due to the City are actually received by the City.

IV-O-11 Excessive Balances – The balances at June 30, 2011 in the Special Revenue, Local Option Sales Tax Fund, the Special Revenue, Road Use Tax Fund, and the Enterprise, Sewer Fund are in excess of one years disbursements. As a result, the balances in these funds may be excessive.

Recommendation – The City analyze these funds, and determine if the balances in these funds are warranted. If warranted, the City should document how they intend to reduce the balances in these funds.

Response – For the funds in question, our plan is to use the balances in these funds for capital improvements which will take place in fiscal year 2012 and in later years.

Conclusion – Response accepted.

**City of Eddyville**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2011**

**None – There were no audit findings related to federal funds in the prior audit.**

City of Eddyville

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2011

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-11	Segregation of Duties	We will review this and take action as necessary.	Mickey Solano City Clerk (641) 969-4267	Immediately
III-B-11	Electronic Check Retention	We will request the front and backs of the checks from the bank.	Mickey Solano City Clerk (641) 969-4267	April 1, 2012
III-C-11	Subrecipient Monitoring	This will be implemented on future contracts with subrecipients. We will also implement monitoring procedures of our subrecipients.	Mickey Solano City Clerk (641) 969-4267	Immediately
III-D-11	Disbursement Approval	The City Council will approve all disbursements, and all disbursements will be published in the newspaper.	Mickey Solano City Clerk (641) 969-4267	Immediately
III-E-11	Cash Management	Invoices will be paid immediately upon receipt of the grant monies in the future.	Mickey Solano City Clerk (641) 969-4267	Immediately
III-F-11	Housing Buy-Out Grant	We will obtain a signed purchase agreement, and work with the Iowa Department of Economic Development on the other issues.	Mickey Solano City Clerk (641) 969-4267	Immediately